**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MSINGA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Msinga Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out o pages xx to xx.

### Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:

    - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
    - selecting and applying appropriate accounting policies
    - making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:

    - appropriateness of accounting policies used
    - reasonableness of accounting estimates made by management
    - overall presentation of the financial statements.

7. Paragraph 11 *et seq*. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Msinga Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

**Opinion**

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Msinga Municipality as at 30 June 2008 and its financial performance and cashflows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

**Emphasis of matter**

Without qualifying my audit opinion, I draw attention to the following matter:

**Unauthorised expenditure**

11. As disclosed in note 35 to the financial statements the municipality incurred unauthorised expenditure of R2.29 million on overspending of capital expenditure which has been disclosed in accordance with section 125(2)(d) of the MFMA.

**OTHER MATTERS**

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

**Non-compliance with applicable legislation**

**Municipal Finance Management Act**

12. A fraud prevention plan and formal risk management policy or process has not been established and incorporated into the municipality's system to assess, manage and control risk on a continuous basis, contrary to section 62(1)(c) of the MFMA.

13. A supply chain management policy has not been approved and implemented as required by section 111 of the MFMA.

14. The annual report for 2006/2007 was not prepared and tabled with Council and no measures have been taken to prepare the 2008 annual report contrary to section 121(1) of the MFMA.

**Municipal Systems Act, 2000**

15. Councillors have not declared their interest as required by Code of Conduct for councillors, contained in schedule 1, sections 5, 6, 7 and 8 of the MSA.

**Matters of governance**

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

| Matters of governance | Yes | No |
|---|---|---|
| **Audit committee** | | |
| • The municipality had an audit committee in operation throughout the financial year. | | ✓ |
| • The audit committee operates in accordance with approved, written terms of reference. | | ✓ |
| • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | | ✓ |
| **Internal audit** | | |
| • The municipality had an internal audit function in operation throughout the financial year. | | ✓ |
| • The internal audit function operates in terms of an approved internal audit plan. | | ✓ |
| • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | | ✓ |
| **Other matters of governance** | | |
| • The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA. | ✓ | |
| • The annual report was submitted to the auditor for consideration prior to the date of the auditor's report | | ✓ |
| • The financial statements submitted for audit were not subject to any material amendments resulting from the audit. | | ✓ |

| Matters of governance | Yes | No |
|---|---|---|
| • No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. | | ✓ |
| • The prior year's external audit recommendations have been substantially implemented. | ✓ | |
| **Implementation of Standards of Generally Recognised Accounting Practice (GRAP)** | | |
| • The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. | | ✓ |
| • The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 207 detailing progress towards full compliance with GRAP. | | ✓ |
| • The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. | | ✓ |

**Unaudited supplementary schedules**

17. The municipality provided supplementary information in the Annexure E1 and E2 to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

**OTHER REPORTING RESPONSIBILITIES**

**Reporting on performance information**

18. I was engaged to review the performance information.

**Responsibility of the accounting officer**

19. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

**Responsibility of the Auditor-General**

20. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008,* issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

21. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

22. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

**Audit findings**

**Non-compliance with regulatory requirements**

23. During the year under review the municipality did not have a performance management system in place as required by section 38 of the MSA.

**Performance information not received in time**

24. The financial statements submitted for auditing did not include a report on the performance information of the municipality, as required by *General Notice 616* as published in *Government Gazette No. 31057 dated 15 May 2008*; read with section 46 of the MSA.

**APPRECIATION**

25. The assistance rendered by the staff of the Msinga Municipality during the audit is sincerely appreciated.

Pietermaritzburg

28 November 2008

AUDITOR-GENERAL